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**NATHAN CHAPMAN SENTENCED TO 90 MONTHS FOR FRAUD**

BALTIMORE, Maryland – Thomas M. DiBiagio, United States Attorney for the District of Maryland, announced that today U.S. District Court Judge William D. Quarles, Jr. sentenced Nathan A. Chapman, Jr., age 47, of Columbia, Maryland to 90 months followed by 3 years of supervised release arising from Chapman's conviction by a federal jury on August 12, 2004 in connection with schemes to defraud the State Retirement & Pension System of Maryland ("the State Pension System"), the Bankers Trust Company Pension System, shareholders in his companies and the public. Judge Quarles also ordered Chapman to pay \$5,000,856 in restitution.

Following a nine-week trial, the jury found Chapman guilty of a total of 23 counts: 15 counts of wire fraud, 2 counts of mail fraud, 3 counts of investment advisory fraud, 1 count of making false statements to the SEC, and 2 counts of making false statements on tax returns.

Chapman served as the investment manager for the Domestic Emerging Markets-Minority Equity Trust ("DEM-MET"), a "fund of funds" in which Chapman was responsible for supervising the investment decisions of between 10-14 minority and women sub-advisers. During the years 2000-2001, the DEM-MET included funds invested by three pension funds: that of Alliant Energy

Company (which withdrew from the Trust in May 2001); the Banker's Trust Company pension fund; and the State Retirement & Pension System of Maryland (SRPSM), which by November 2000, had invested 82.9% of the total assets in the DEM-MET.

In June 2000, Chapman fraudulently caused one of the DEM-MET's sub-advisers, Alan Bond, to use more than \$5 million in DEM-MET pension funds to purchase stock in the initial public offering (IPO) of *eChapman.com*, a new Internet-oriented financial services company in which Chapman himself owned more than 60% of the shares. When Chapman was unable to find sufficient interested purchasers for the full 1.26 million shares of *eChapman* stock that were issued in the IPO, he pressured Bond to initially purchase 200,000 shares of *eChapman* stock at the offering price of \$13/share. When the *eChapman* stock opened for public trading on June 20, 2000, it immediately lost 43% of its value as a result of a complete lack of demand for the stock and sales by investors who had received *eChapman* shares in exchange for their stock in The Chapman Company and Chapman Capital Management, the two predecessor companies of *eChapman*. This caused an initial loss of more than \$1 million to the DEM-MET's clients.

A week later, on June 26, 2000, Chapman pressured Bond to accept an additional 175,000 shares of *eChapman* stock that had not been sold at the original offering price of \$13/share – even though *eChapman* was then selling at a price of barely \$7/share in public trading. This transaction caused an immediate loss of another \$1 million-plus to the clients of the DEM-MET. By the time the DEM-MET's clients learned about these purchases and were able to sell the *eChapman* shares in February 2002, the stock commanded prices of between \$0.49 and \$0.10 per share. The State Pension System ultimately lost \$4.724 million on the *eChapman* investments by Alan Bond, while the Banker's Trust Company pension plan lost another \$700,000. The jury convicted Chapman on

13 wire, mail, and investment advisory fraud counts relating to the purchases of eChapman stock with DEM-MET funds.

Chapman was also convicted of looting his companies by fraudulently obtaining checks for “business development” purposes that he then converted to cash and applied to his personal use. The total amount of funds Chapman obtained by this means totaled \$518,000 between January 1997 and late July 2002. Chapman used at least half of this amount to pay for gifts and financial support to various women with whom he was having extramarital relationships. Prosecutors further charged that Chapman allowed his publicly-held companies to pay for another \$48,420.51 in housing costs, trips, transportation, and a \$7,000 college graduation party for one of his mistresses. In connection with the so-called “business development” checks, the jury convicted Chapman on four charges alleging that he caused the companies he controlled to file various reports with the Securities & Exchange Commission that fraudulently understated his personal compensation while overstating the amounts the Chapman companies were spending on business development. The jury also found that Chapman falsely understated his personal income by omitting the amounts he received from the “business development” checks on the joint federal tax returns that he and his wife filed for the years 2000-2001. The jury acquitted Chapman of one count of filing false tax returns and was unable to reach a verdict on two others.

United State Attorney Thomas M. DiBiagio stated that “This case demonstrates our unyielding commitment to investigate and prosecute abuses of position of trust regardless of the power and prestige of the defendant. When individuals and corporations engage in fraud, self-dealing or deliberately deceptive conduct, they should be held criminally accountable. Simply put, we intend to treat individuals who commit financial crimes in Maryland just like every other

criminal prosecuted by federal prosecutors in Maryland; they will be arrested, indicted, prosecuted and when convicted, we intend to seek very severe sentences of imprisonment.”

This case was the result of a joint investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, the Internal Revenue Service - Criminal Investigation Division and the United States Attorney’s Office for the District of Maryland. The case was investigated and prosecuted by Assistant United States Attorneys Jefferson M. Gray, Craig M. Wolff and P. Michael Cunningham. Special Agent Steven Quisenberry of the FBI was the principal investigating agent.